

**GOVERNMENT OF ANDHRA PRADESH  
ABSTRACT**

**Establishment of Apex Cooperative Credit Society for financing the Self Help Groups (SHGs) through the Mandal Samakhyas (MSs) – Orders – Issued**

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PANCHAYAT RAJ & RURAL DEVELOPMENT (RD-II) DEPARTMENT

G.O.Ms.No.255

Dated:19.08.2011

Read the following:

1. Note from the CEO, SERP, Hyderabad, dated 16.6.2011.
2. Govt., D.O. Lr.No.9/RD.I/A1/2011, dt.27.6.2011 addressed to the Union Finance Minister, New Delhi, Union Minister for RD, New Delhi, Chairman, NABARD, Mumbai and MD, SBH, Hyderabad.
3. Note from the CEO, SERP, Hyderabad, Dated:29.07.2011

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**ORDER**

The Government of Andhra Pradesh is implementing one of the largest Poverty alleviation programmes through the Society for Elimination of Rural Poverty (SERP), by a programme called the Indira Kranthi Patham (IKP). The IKP has been able to mobilise very large number of women into SHGs across the State. Pro-active steps for organizing the rural poor into SHGs have been taken by the State so as to bring them into the fold of financial inclusion. More than One crore rural poor households have formed themselves into 9.94 lakh Self Help Groups, further federated into 38,300 Village Organizations, 1099 Mandal Samakhyas (MSs) and 22 Zilla Samakhyas (ZSs) have come into existence in 22 Districts. The SHGs are financed under SHG Bank linkage programme for taking up different income generating activities. The SHG Bank linkage (SHGBL) has been increased from Rs.88 Crore in 2000-01 to more than Rs.7,000 Crore so far in 2011. The per SHG credit availability has also been increased from Rs.20,342 in 2000 to Rs.1,81,000 in 2011 so far.

2. The Chief Executive Officer (CEO), SERP, A.P. Hyderabad has brought to the notice of Government that despite this impressive achievement, there has been a 'credit gap' arising out of inability to banks to address emergency credit needs when an existing bank loan is under service. As a result, in cases of emergencies or higher order lending, SHGs are still forced to approach high cost money lenders or Micro Finance Institutions, resulting in their impoverishment. In order to save the SHG members from the exploitation and to fill the credit gap, there is a need for establishing a financing institution that would work through the network of SHG federations and provide credit at affordable rates. The SERP has explored various options in this regard and proposed to register a specialised credit entity (henceforth referred to as 'Institution') under the AP State Cooperative Societies Act 1964. The CEO, SERP has also proposed that such an institution would need to be supported by the Government by contributing share capital.

3. Government, after careful examination, approve the above proposal and permit the Society for Elimination of Rural Poverty (SERP) to participate in registration of an Apex Cooperative Credit Society to be formed & registered as a joint initiative of Government of AP and the SHG Mandal Samakhyas (MSs) with the objective of making available affordable credit (at maximum interest rates of 15% p.a.) to the SHGs covering the credit gap in the emergency and higher-order financing needs of the SHG households. It shall complement & supplement the SHG Bank linkage initiative of the Banks. The Institution shall function as per the following broad structure:

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- a) **Membership:** The membership shall be limited to the Mandal Samakhyas (MSs) functioning in the State of Andhra Pradesh promoted by the Society for Elimination of Rural Poverty (SERP).
- b) **Management:** All its operations shall be IT driven linking the MSs through internet banking system. It shall have a single branch, with minimum staff strength. Suitable provisions shall be put in place to ensure that the management would be not only professional but also efficient, with key personnel appointed for period of three years. Administrative cost shall be limited to 10% of the net return. The SERP shall play the role of Adviser and of a sensitive support Organisation for the Institution.
- c) **Capital structure:** The total authorised share capital shall be Rs.500 Crore of which the paid up Capital would be Rs.200 Crore in the first year. Of this, Rs.100 Cr would be mobilized by each MS contributing @ Rs.10 lakhs as share capital. The Government shall give a matching contribution of Rs.100 Cr as equity subject to the following:
- i. The Managing Director (MD) of the Institution is appointed with the concurrence of the Government.
  - ii. There are at least three Government nominees on the Board.
  - iii. No major decision is taken without the approval of at least two Government nominees.
  - iv. The Managing Director shall be personally responsible for completion of audit within six months of the close of the Financial Year.
- d) **Funding operations:** The capital shall be leveraged to mobilize funds for lending to the MS. In 2011-12, an amount of Rs.1,000 Crore shall be mobilized, to be increased to Rs.4,000 Crore by 2014. The Institution shall also actively seek funds from multi-laterals interested in financial inclusion and vulnerability reduction. It shall also look for specific grants for IT and innovation through funds available with other institutions like NABARD. There shall be a 'Risk Fund' created from among the National Rural Livelihood Mission (NRLM) funds released for the State.
- e) **Functioning:** The Institution shall give to each MS a credit limit ranging from Rs.1 Crore to Rs.4 Crore depending on their corpus and functioning based on performance rating. In the similar way, each MS shall give credit limits to each Village Organisation (VOs) of SHGs. The credit limits to MS/VO shall be pre-decided based on a decision algorithm which shall consider (a) rating of the MS/VO, (b) the existing loan limits that the MS/VO has drawn/outstanding and (c) the own funds of the MS/VO. The due diligence of each loan would be done by the VO as per agreed prudential norms. Within the given credit limits, the VOs shall assess the requirements of SHG members, while giving special preference to the poorest of poor households in such a way that at least half of the credit flows to these vulnerable households; and recommend the same to the MSs for sanction of loans, using an automatic route. The credit shall have to reach the SHG member within forty eight (48) hours from the time the demand is raised using e-banking systems.

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- f) **Role of SERP:** The SERP shall play the role of sensitive support Organisation and shall undertake capacity building of VOs and MSs by recognizing the problem areas, innovating and disseminating information, so that the systems of due diligence, utilisation and repayment of the money lent function efficiently.
- g) **Pavala Vaddi:** A prompt repayment of the loans would qualify for Pavala Vaddi incentive.

4. The matching contribution of Government in the Institution shall be limited to actual contribution of share capital by the MSs; and shall be met from the savings in the Rural Development Budget of 2011-2012. The CEO, SERP, Andhra Pradesh, Hyderabad is advised to take immediate steps to register the Institution and ensure that the operations are started by September 2011.

5. A copy of this order is available on the Internet and can be accessed at the address: <http://www.rd.ap.gov.in>.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDHRA PRADESH)

R.SUBRAHMANYAM  
PRINCIPAL SECRETARY TO GOVERNMENT (RD)

To

The Chief Executive Officer, SERP, A.P., Hyderabad.

All Project Directors, DRDA (for communication to all the ZSs, MSs and VOs of SHG)

The Registrar of Cooperative Societies, Gruhakalpa, 3<sup>rd</sup> Floor, A.P., Hyderabad.

**Copy to:**

The P.S to Principal Secretary to Government, Finance

The Spl. Secretary to Chief Minister

The PS to Minister (IKP)

The P.S to Principal Secretary to Government (RD)

The PR & RD (General) Department

SF/SC.

//FORWARDED :: BY ORDER//

SECTION OFFICER